

HOLLAND & HART



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August 19, 2016

VIA ELECTRONIC MAIL

Padilla Law Firm, P.A.
Attn: Mr. Ernest L. Padilla
1512 S. St. Francis Drive
Santa Fe, NM 87505

**Re: Application of Ard Energy, LLC to Re-open Case No. 15185 to determine
reasonable well costs, Lea County, New Mexico**

Dear Ernie,

As we discussed when this case was filed, COG does not have a clear understanding of the specific concerns Ard has with the final well costs. This remains the case even after COG fully responded to Ard's subpoena. The only description of the concern COG has at this point is the incorrect statement in the Application that the costs increased by 38.97%.

While the costs did increase, it was not at the percentage represented and most of that increase is associated with surface facilities designed to accommodate subsequent infill wells in the pooled spacing unit. Given Ard's small interest in this spacing unit, COG would like to resolve this matter without the expense of a hearing.

COG correctly billed all of the facility cost to the 11H since it was the first well drilled in the pooled spacing unit. COG designed and built that surface facility to accommodate additional wells in the spacing unit to avoid unnecessary surface disturbance. The results of the 11H have shown that to be a prudent course, as COG is now developing the spacing unit with three additional infill wells: The Ivar the Boneless 22H, 12H, and 21H.

COG recognizes the \$3.4 million February 2015 AFE that Ard signed on May 21, 2015, did not correctly reflect the expanded surface facility cost. As a result, the subsequent actual cost statement generated a year later in February of 2016 reflects an increase in costs of roughly \$767,000. A review of the two statements will reflect that the vast majority of this increase is associated with the surface facility costs.

**BEFORE THE OIL CONVERSION
DIVISION**

Santa Fe, New Mexico

Exhibit No.

Submitted by: COG Operating LLC

Hearing Date: October 13, 2016

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Since Ard has chosen to go non-consent on the infill wells, COG proposes to allocate the surface facility costs evenly over each of the four wells in the spacing unit. This will reduce the gross facility cost billed to the initial pooled well (the Ivar the Boneless Fed 11H) from \$658,980 to \$164,745. With this adjustment, the total AFE cost is only approximately five percent above what was presented in February of 2015.

Please advise if this re-allocation of the surface facility cost satisfies Ard's concerns. If not, please inform me of the specific concerns Ard has with the billing. It seems to me this matter is not worth the cost and expense of a hearing, and that before proceeding to hearing we should determine whether we can amicably address Ard's specific concerns.

I would appreciate a response by the end of the week.

Sincerely,

Michael H. Feldewert
ATTORNEY FOR COG OPERATING LLC